

Message Text

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PAGE 01 LAGOS 00794 200837Z
ACTION EB-08

INFO OCT-01 AF-10 ISO-00 AID-05 CIAE-00 FRB-03 INR-07
NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
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E.O. 11652: N/A
TAGS: EFIN, NI
SUBJECT: 1977 BALANCE OF PAYMENTS - WIDENING CURRENT ACCOUNT DEFICIT
FOR FIRST TWO QUARTERS

1. BEGIN UNCLASSIFIED. THE NIGERIAN CENTRAL BANK HAS RELEASED NATIONAL ACCOUNTS STATISTICS FOR THE FIRST SIX MONTHS CY 1977 WHICH SHOW A PROVISIONAL BALANCE OF PAYMENTS DEFICIT OF DOLS 409.59 MILLION. SUMMARIZED BALANCE OF PAYMENTS FOLLOWS (IN MILLIONS OF US DOLS) (NAIRA 1 EQUALS US DOLS 1.5352). MAIN COMPONENTS BALANCE OF PAYMENTS FOR FIRST HALF CY 1976 INCLUDED FOR COMPARISON.

1ST AND 2D QTR 1977 1ST AND 2D QTR. CY 1976

CURRENT ACCOUNT (#)494.02 (#)28.71
MERCHANDISE (##)998.96
EXPORTS
(FOB) (##)5756.54 (##)4798.11
IMPORTS
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PAGE 02 LAGOS 00794 200837Z

(C&F) (#)4757.58 (#)3536.94
SERVICES (#)1409.31 (#)1183.79
UNREQUIRD
TRANSFERS
(NET) (#)83.67 (#)4867
CAPITAL
ACCOUNT (#)110.38 (#)227.21

ERRORS &		
OMISSIONS	(#)25.95	(#)22.10
(BALACING		
FACTOR)	(409.59)	(233.81)

LEGEND: (#) MINUS
 (##) PLUS

END UNCLASSIFIED

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2. HISTORICALLY, NIGERIAN BALANCE OF PAYMENT INFLOWS OUTPACE OUTFLOWS DURING FIRST HALF OF CALENDAR YEAR. FOR EXAMPLE, THE DOLS 233.81 MILLION QUOTE BALANCE OF PAYMENT SURPLUS UNQUOTE NIGERIA HAD IN THE FIRST TWO QUARTERS OF CY 1976 WAS OVERWHELMED BY THIRD AND FOURTH QUARTER CURRENT ACCOUNT DEFICITS YIELDING YEAR END BALANCE OF PAYMENTS DEFICIT OF DOLS 370.9 MILLION. IF HISTORY IS REPEATING ITSELF, THE DOLS 409.59 MILLION DEFICIT FOR THE FIRST HALF CY 1977 HAS A BAD OMEN INDEED.

3. THERE ARE SEVERAL REASONS FOR THE ABOUT-FACE IN BALANCE OF PAYMENTS STATEMENT FOR THE FIRST HALF OF CY 1977. FIRST, DESPITE NEAR RECORD PRODUCTION AND HIGHER POSTED PRICES, INCREASED OIL PRODUCTION REVENUE COULD NOT COUNTERACT RISING TIDE OF IMPORTS. NON-OIL EXPORTS REMAINED INSIGNIFICANT. ACCORDINGLY, MERCHANDISE

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PAGE 03 LAGOS 00794 200837Z

TRADE SURPLUS DROPPED BY DOLS 262 MILLION. SERVICES ACCOUNT ALSO CONTINUED TO DETERIORATE BY OVER DOLS 200 MILLION EVEN THOUGH INSURANCE PAYMENTS CEASED TO BE FACTOR (SEE 77 LAGOS 1165). A LOSS IN INVESTOR CONFIDENCE CAUSED IN PART BY THE 1976 INDIGENIZATION DECREE HELPED LEAD TO THE NEAR COLLAPSE OF NEW NON-PETROLEUM FOREIGN INVESTMENT (FROM DOLS 107 MILLION TO DOLS 13 MILLION). THIS AND NIGERIAN GOVERNMENT CONTRIBUTIONS TO THE AFRICAN DEVELOPMENT BANK WERE INSTRUMENTAL IN THE CAPITAL ACCOUNT SURPLUS DROPPING BY OVER 50 PERCENT.

4. ALTHOUGH DATA IS NOT YET AVAILABLE PACE OF BALANCE OF PAYMENTS DETERIORATION PROBABLY ACCELERATED OVER THIRD AND FOURTH QUARTERS CY 1977. AS NOTED ABOVE THIRD AND FORTH QUARTER OUTFLOWS TRADITIONALLY OUTPACE PAYMENT INFLOWS. COMPOUNDING PROBLEM HAS BEEN DROP IN OIL PRODUCTION. OIL SECTOR REVENUES FOR THE SECOND HALF CY 1977 MAY ONLY TOTAL ABOUT DOLS 4.6 BILLION COMPARED TO DOLS 5.1 BILLION EARNED DURING FIRST SIX MONTHS OF YEAR. DEFICIT FOR ALL CY 1976 MAY WELL EXCEED DOLS 1.3 BILLION.

5. THE FOREIGN EXCHANGE LOSS FOR FY 1977-78 (END MARCH 31, 1978) WILL BE PARTIALLY OFFSET BY DOLS 1 BILLION EURODOLLAR LOAN

SIGNED JANUARY 16, 1978. LOAN PROBABLY WILL BE FIRST OF
SEVERAL LARGE SCALE GENERAL PURPOSE AND PROJECT TIED CAPITAL
INFLOWS, PERHAPS TOTALING DOLS 4 BILLION THROUGH FY 1979-80,
WHICH WILL MITIGATE PARTIALLY THE EFFECTS OF NIGERIA'S CRUMBLING
CURRENT ACCOUNTS POSITION. FMG HOPES THIS CAPITAL INFUSION
TIED WITH RESUMED FOREIGN INVESTOR CONFIDENCE WILL INCREASE
PRODUCTION IN NIGERIA'S NON-PETROLEUM SECTOR. THIS TOGETHER
WITH AN ALREADY PERCEPTEABLE SLOWDOWN IN THE RATE OF IMPORT
GROWTH WOULD BRING THE CURRENT ACCOUNT INTO BALANCE BEFORE
NIGERIA'S FOREIGN EXCHANGE RESERVES FALL BELOW DANGER LEVEL
(DOLS 2.5-3 BILLION). WHETHER OR NOT THIS STRATEGY WILL BE
SUCCESSFUL IS PROBLEMATICAL. END LIMITED OFFICIAL USE.

EASUM

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PAGE 04 LAGOS 00794 200837Z

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